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MEMORANDUM

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FROM: Steven M. Olea
Director
Utilities Division

EA Arizona Corporation Commission
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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

DATE: May 6, 2011

DOCKETED BY

RE: STAFF REPORT FOR PARKER LAKEVIEW ESTATES HOA DBA PARKER SPRINGS WATER COMPANY'S APPLICATIONS FOR A RATE INCREASE AND FINANCING. (DOCKET NOS. W-01853A-11-0065 & W-01853A-11-0050)

Attached is the Staff Report for Parker Lakeview Estates HOA's applications for a permanent rate increase and authorization for financing. Staff recommends approval of the rate application using Staff's recommended rates and charges and conditional approval of the finance application.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before May 16, 2010.

SMO:GTM:red

Originator: Gary T McMurry

Service List for: Parker Lakeview Estates HOA, Inc., dba Parker Springs Water Co.
Docket Nos. W-01853A-11-0065 & W-01853A-11-0050

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**PARKER LAKEVIEW ESTATES HOA, INC.
DBA PARKER SPRINGS WATER COMPANY
DOCKET NOS. W-01853A-11-0065 & W-01853A-11-0050**

**APPLICATION FOR A
PERMANENT RATE INCREASE
AND
FINANCING**

MAY 6, 2011

STAFF ACKNOWLEDGMENT

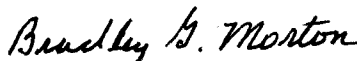
The Staff Report for Parker Lakeview HOA, Inc. dba Parker Springs Water Co., Docket Nos. W-01853A-11-0065 and W-01853A-11-0050, was the responsibility of the Staff members listed below. Gary T McMurry is responsible for the review and analysis of the Company's application, recommended revenue requirement, rate base and rate design. Marlin Scott, Jr. is responsible for the engineering and technical analysis. Bradley G. Morton is responsible for reviewing the Commission's records on the Company, determining compliance with Commission policies/rules and reviewing customer complaints filed with the Commission.



Gary T. McMurry
Public Utilities Analyst IV



Marlin Scott Jr.
Utilities Engineer



Bradley G. Morton
Public Utilities Consumer Analyst II

EXECUTIVE SUMMARY
PARKER LAKEVIEW ESTATES HOA, INC.
DBA PARKER SPRINGS WATER COMPANY
DOCKET NOS. W-01853A-11-0065 AND W-01853A-11-0050

Parker Lakeview Estates HOA, Inc., dba Parker Springs Water Company ("Parker Springs" or "Company"), a non-profit Arizona Corporation, serves potable water to approximately 41 (13 full-time and 28 seasonal) customers in a rural subdivision near Elgin, in Santa Cruz County, Arizona.

On February 3, 2011, the Company filed an application for a permanent rate increase, and on January 28, 2011, it filed a financing application. A Procedural Order, dated March 9, 2011, consolidated the rate and financing cases.

The Company proposes a 45.2 percent increase in operating revenue, from \$16,433 to \$23,871, to provide a 17.89 percent rate of return on a \$39,969 original cost rate base.¹ The Company's proposed rates would increase the typical residential bill, with a median usage of 430 gallons, by \$15.00, from \$34.66 to \$49.66, for an increase of 43.3 percent (Schedule 5).

Staff recommends three rate base and two operating income adjustments. The rate base adjustments decrease rate base by the net amount of \$5,446, from \$39,969 to \$34,523. The two operating income adjustments decrease test year operating expenses by the net amount of \$2,390, from \$16,722 to \$14,332.

Staff recommends permanent rates that generate an 11.4 percent increase in revenue, from \$16,433 to \$18,302, to provide an 11.50 percent rate of return on a \$34,523 original cost rate base. Under Staff's recommended rate design the typical bill for a 5/8 x 3/4-inch meter customer with a median use of 430 gallons would increase by \$1.50, or 4.3 percent, from \$34.66 to \$36.16.

The Company proposes a rate structure that includes a monthly minimum charge that increases by meter size and an inverted three-tier commodity rate for 5/8 x 3/4-inch and 3/4-inch meters and a two-tier commodity rate for larger meters. The proposed rates represent increases over present rates only for the monthly minimum charges for 1-inch and smaller meters.

Staff also recommends a rate structure that includes a monthly minimum charge that increases by meter size and an inverted three-tier commodity rate for all 5/8 x 3/4-inch and 3/4-inch meters and a two-tier commodity rate for larger meters. However, Staff recommends a higher spread among the monthly minimum charges for the various meter sizes (all test year customers had 5/8 x 3/4-inch meters) and a greater ratio among the commodity rates than those recommended by the Company.

The Company is currently experiencing significant water loss. Excessive water loss provided the impetus for studies by two independent engineering consultants. The Arizona

¹ The Company is not proposing a fair value rate base that differs from its original cost rate base.

Department of Environmental Quality ("ADEQ") retained a contractor for one of the studies, and the Company received grants totaling \$15,000 from the Water Infrastructure Finance Authority of Arizona ("WIFA") for the other study for the purpose of identifying the cause of the water loss and for recommending possible solutions. As a result of those studies, the Company is requesting authorization for a \$271,000 20-year amortizing loan from WIFA to fund pipe replacement and development of a new production well site. Subsequent to filing the finance application, the Company provided Staff with an updated list of estimated costs that prioritizes the proposed projects. The Staff Engineering Report presents a list that prioritizes Staff's recommended projects which include: (1) leak detection and pipe replacement and (2) development of a new well and site - including a solar package well pump system and a 10,000-gallon storage tank. The total estimated costs are \$271,000.

As of October 30, 2010, Parker Spring's capital structure consisted of 0.0 percent short-term debt, 0.0 percent long-term debt, and 100.0 percent equity. Staff calculated a pro forma capital structure reflecting issuance of a \$271,000 19.5-year amortizing loan at 4.46 percent per annum ((prime rate, 3.25 percent + 2.00 percent) x subsidy rate, 0.85)), and it is composed of 0.0 percent short-term debt, 88.4 percent long-term debt and 11.6 percent equity.

Staff also calculated pro forma debt service coverage ratio ("DSC") of 0.31 using Staff recommended permanent rates. This pro forma DSC shows that cash flow from operations is insufficient to cover debt service on the proposed loan; accordingly, the Company would need a source of funds other than permanent rates to meet all obligations including the proposed loan. Staff calculated that the Company would need additional funds of \$19,932, representing a 121.3 percent increase over test year revenues of \$16,433 to provide a 1.25 DSC and sufficient cash flow to meet all obligations including WIFA's requirement to fund a "Debt Service Reserve Fund" equal to 20 percent of debt service. A \$40.51 per meter monthly loan surcharge would provide the needed additional funds under Staff's assumed loan terms. The loan surcharge combined with Staff's recommended permanent rates would increase the typical bill for a 5/8 x 3/4-inch meter customer with a median use of 430 gallons by \$42.01, or 121.2 percent, from \$34.66 to \$76.67.

Staff concludes that the Company's proposed capital projects as modified by Staff are appropriate and that the related cost estimates are reasonable.

Staff concludes that issuance of the proposed debt financing for the purposes recommended by Staff is within Parker Spring's corporate powers, is compatible with the public interest, and is consistent with sound financial practices, subject to the condition that the Company is authorized sufficient revenue in this rate case via permanent rates and a loan surcharge to meet its debt service and the associated loan covenants.

Staff recommends:

- Approval of Staff's rates and charges as shown in Schedule GTM-4. In addition to collection of its regular rate and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax, per Commission Rule 14-2-409D-5.

- Directing the Company to docket with the Commission a schedule of its approved rates and charges within 30 days after the date the Decision in this matter is issued.
- Authorizing the depreciation rates shown in Table B of the Engineering report.
- Authorizing the meter and service line charges shown on Table C of the Engineering report.
- Granting the Company authorization to incur an 18- to 22-year amortizing loan in an amount not to exceed \$271,000 pursuant to a loan agreement with WIFA and at an interest rate not to exceed that available from WIFA, subject to the condition that the Company is authorized sufficient revenue in this rate case via permanent rates and a loan surcharge to meet its debt service and the associated loan covenants.
- Granting the Company authorization to charge a loan surcharge to become effective at a date and in a manner as subsequently authorized by the Commission and directing the Company to file with Docket Control, as a compliance item in this matter, within 30 days of the execution of the loan documents, copies of the executed loan documents and a request for Commission authorization to implement a loan surcharge.
- Authorizing Parker Springs to pledge its assets in the State of Arizona pursuant to Arizona Revised Statutes § 40-285 and Commission Rule 18-15-104 in connection with the WIFA loan.
- Ordering termination of any authorization to incur debt granted in this proceeding that remains unused by December 31, 2013.
- Authorizing Parker Springs to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.
- Directing Parker Springs to file with Docket Control, as a compliance item in this docket, by August 1, 2012, a copy of the ADEQ Certificate for Approval of Construction for the installation of the new well.
- Directing Parker Springs to notify customers by mail in its next billing of its proposed increase in revenue over the test year in dollars and percent, Staff's recommended increase in permanent revenue in dollars and percent, the dollar amount of its financing request, Staff's estimate of the per customer monthly loan surcharge and that the loan surcharge combined with Staff's recommended permanent rates would increase the typical bill for a 5/8 x 3/4-inch meter customer with a median use of 430 gallons by \$42.01, or 121.2 percent, from \$34.66 to \$76.67.

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ATTACHMENTS

ENGINEERING REPORT - RATES	ATTACHMENT A
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CONSUMER SERVICES REPORT	ATTACHMENT C

FACT SHEET

Company Statistics:

Current Rates: Decision No. 71456, dated January 6, 2010.

Type of Ownership: Arizona Corporation (Home Owner's Association).

Location: The Company's service area overlooks Parker Canyon Lake (approximately 75 miles southeast of Tucson, AZ) in Cochise, County.

Rates:

Rate Application Docketed: February 3, 2011
Current Test Year Ended: October 30, 2010
Application Found Sufficient: March 7, 2011

	<u>Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charge (Based on a 5/8" X 3/4" meter)	\$33.50	\$48.50	\$35.00
Gallons in Minimum	0	0	0
Commodity Charge:			
Excess of minimum, charge per 1,000 gallons:			
0 to 3,000 Gallons	\$ 2.70	\$ 2.70	\$ 2.70
3,001 to 8,000 Gallons	\$ 3.00	\$ 3.00	\$ 4.50
Over 8,001 Gallons	\$ 3.25	\$ 3.25	\$ 5.40
Typical residential bill based On median usage of 430 gallons	\$34.66	\$49.66	\$36.16

Customers:

Number of customers in the prior test year (12/31/2008): 38

Number of customers in the current test year (10/30/2010): 41

Current year customers by meter size: 5/8 X 3/4 – inches: 41
Seasonal customers: 28

Customer notification mailed:	January 27, 2011
No. of customer complaints since rate application filed:	1
Percentage of complaints to customer base:	2.4 %

SUMMARY OF RATE FILING

The test year results, as adjusted by Staff, for Parker Springs Water Company ("Parker Springs" or "Company") show total operating revenue of \$16,433 and operating expenses of \$14,332 resulting in a \$2,101 operating income. A rate of return on the \$34,523 adjusted original cost rate base ("OCRB") is 6.09 percent.

The Company-proposed rates, as filed, produce total operating revenue of \$23,871 and operating income of \$7,149 for a 17.89 percent rate of return on an OCRB of \$39,969.² The Company's proposed rates would increase the typical residential bill, with a median usage of 430 gallons, by \$15.00, from \$34.66 to \$49.66, for an increase of 43.3 percent (Schedule 5).

Staff recommends permanent rates that produce total operating revenue of \$18,302 that would provide the Company with operating income of \$3,970 for an 11.50 percent rate of return on a \$34,523 OCRB. Since the Company did not file reconstruction cost new information, Staff recommends recognizing a fair value rate base equal to the OCRB. The typical residential bill for a 5/8 x 3/4-inch customer, with a median usage of 430 gallons, would increase by \$1.50, or 4.3 percent, from \$34.66 to \$36.16.

COMPANY BACKGROUND

Parker Springs is a non-profit Arizona Corporation engaged in the business of providing potable water service. The certificate of convenience and necessity ("CC&N") for the water system was granted in Decision No. 34138, dated October 19, 1962. The CC&N was transferred to Parker Lakeview Estates Homeowners Association in Decision No. 57431, dated June 19, 1991. On January 6, 2010, Decision No 71456 established the current rates which are now in effect.

Parker Springs filed its application for a permanent rate increase ("Application") on February 3, 2011, and on January 28, 2011, it filed a financing application. A Procedural Order, dated March 9, 2011, consolidated the rate and financing cases. Staff deemed the Company's Application sufficient and notified Parker Springs by letter on March 7, 2011. The Company mailed a combined rate and financing application Notice to customers on January 27, 2011. The Notice does not identify the dollar amount (\$271,000) of the proposed loan.

² The Company is not proposing a fair value rate base that differs from the OCRB.

CONSUMER SERVICES

A review of the Consumer Service records showed two complaints, twelve inquiries, and eight opinions were filed regarding Parker Springs within the past three years. There have been no complaints since 2010. No formal complaints, no informal complaints, inquiries or opinions have been filed pertaining to the Company's filing for an increase in rates.

A review of the Company's billing format indicates that it is in compliance with the Arizona Administrative Code ("A.A.C.") R14-2-409.B.2. The Company submitted a Cross Connection/Backflow Tariff through Docket Control on August 14, 1995.

COMPLIANCE ISSUES

A search of the Arizona Corporation Commission ("Commission") Utilities Division database revealed that Parker Springs is in full compliance with prior Commission decisions.

The Company is current on filing both its corporate and utility annual reports. The Company is current on its property tax obligations.

ENGINEERING ANALYSIS

The Arizona Department of Environmental Quality ("ADEQ") reported that the system is currently delivering water that meets the water quality standards required by the A.A.C., Title 18, Chapter 4. Details of Staff's review of the system are presented in the Staff Engineering Report – Attachment A.

The Company is in compliance with the new arsenic maximum contaminant level. The Company is not located in an Active Management Area and is not subject to conservation and monitoring requirements by the Arizona Department of Water Resources.

The Company is currently experiencing significant water loss. Excessive water loss provided the impetus for studies by two independent engineering consultants. ADEQ retained a contractor for one of the studies, and the Company received grants totaling \$15,000 from the Water Infrastructure Finance Authority of Arizona ("WIFA") for the other study for the purpose of identifying the cause of the water loss and for recommending possible solutions. As a result of those studies, the Company is requesting authorization for a \$271,000 20-year amortizing loan from WIFA to fund pipe replacement and development of a new production well site. Subsequent to filing the finance application, the Company provided Staff with an updated list of estimated costs that prioritizes the proposed projects. The Staff Engineering Report presents a list that prioritizes Staff's recommended projects which include: (1) leak detection and pipe replacement and (2) development of a new well and site - including a solar package well pump system and a 10,000-gallon storage tank. The total estimated costs are \$271,000. Regarding the

improvements proposed to be funded by the financing, Staff makes no “used and useful” determination nor any conclusions for rate base or ratemaking purposes.

RATE BASE

Staff’s three rate base adjustments decrease the Company’s proposed rate base by \$5,446 from \$39,969 to \$34,523, as shown in Schedule 2, page 1. Details of Staff’s adjustments are explained below.

Engineering Study – In adjustment A, Staff decreased the Wells and Springs account by \$15,000, from \$19,500 to \$4,500, as shown on Schedule 2, page 2. The Company recorded the \$15,000 cost of an environmental and engineering study related to the ongoing water loss issue in the Wells and Springs account. The cost of this engineering study should be recorded as construction work in progress (“CWIP”) because none of the projects recommended by the study are complete and providing utility service at this time. The Company should transfer these costs from CWIP to the appropriate plant accounts as the improvement projects are completed and placed in service.³

Accumulated Depreciation – In adjustment B, Staff decreased Accumulated Depreciation by \$8,380, from \$54,514 to \$46,134, as shown in Schedule 2, page 3. Staff calculated an accumulated depreciation balance by adding depreciation expense for the years 2009 and 2010 and subtracting accumulated depreciation for recorded plant retirements to the Commission-approved balance for accumulated depreciation in the prior test year ended December 31, 2008.

Working Capital – In adjustment C, Staff included a cash working capital allowance of \$1,174 based on the formula method, as shown in Schedule 2, page 1. The formula method recognizes one-eighth of the operating expenses excluding depreciation, taxes, purchased water and purchased power expenses plus one twenty-fourth of purchased power expenses.

OPERATING INCOME

Staff’s two operating income adjustments decrease the Company’s proposed total operating expenses by \$2,390, from \$16,722 to \$14,332, as shown on Schedule 3, page 1. Details of Staff’s adjustments are discussed below.

Water Testing – Adjustment C decreases water testing expenses by \$135 to reflect the average on-going amount of \$1,019.

Depreciation – Adjustment D decreased this account by \$2,255, from \$4,728 to \$2,473, to reflect application of Staff’s recommended depreciation rates to Staff’s recommended

³ Since the \$15,000 cost was covered by a WIFA grant, the Company should record the amount as Contributions-in-aid-of-Construction (“CIAC”). Staff has not recognized the CIAC in rate base since the corresponding CWIP is not recognized in rate base.

depreciable plant amounts. Staff noted several mathematical errors and the misapplication of previously-authorized depreciation rates in the Company's depreciation calculation.

REVENUE REQUIREMENT

Staff recommends total operating revenue from permanent rates of \$18,302, a \$1,869 or 11.4 percent, increase over the Staff adjusted Test Year operating revenue of \$16,433. Staff's recommended revenue provides an operating income of \$3,970, an operating margin of 21.69 percent, and an 11.50 percent rate of return on a rate base of \$34,523, as shown in Schedule 1. Staff's recommended permanent revenue is sufficient to cover operating and maintenance expense, but is not sufficient to provide debt service on the Company's proposed loan (see finance discussion below).

RATE DESIGN

Schedule 4 presents a complete list of the Company's present, proposed, and Staff's recommended rates and charges.

The present rate structure includes a monthly minimum charge that increases by meter size and an inverted three-tier commodity rate for 5/8 x 3/4-inch and 3/4-inch meters and a two-tier commodity rate for larger meters. The break-over points for 5/8 x 3/4-inch and 3/4-inch meters are at 3,000 and 8,000 gallons. The break-over point for 1-inch meters is at 10,000 gallons and increases by meter size to 450,000 gallons for a 6-inch meter. No gallons are included in the monthly minimum charge for any meter size.

The Company proposes a rate structure that modifies the present rates only by increasing the monthly minimum charges for 1-inch and smaller meters by \$15.00. The Company's proposed rates would increase the median usage 5/8 x 3/4-inch meter residential customer's bill by \$15.00, or 43.3 percent, from \$34.66 to \$49.66.

Staff also recommends a rate structure that includes a monthly minimum charge (with no gallons included) that increases by meter size and an inverted three-tier commodity rate for all 5/8 x 3/4-inch and 3/4-inch meters and a two-tier commodity rate for larger meters. However, Staff recommends a higher spread among the monthly minimum charges for the various meter sizes (all test year customers had 5/8 x 3/4-inch meters) and a greater ratio among the commodity rates than those recommended by the Company. Staff's recommended permanent rates would increase the median usage 5/8 x 3/4-inch meter residential customer's bill by \$1.50 or 4.3 percent, from \$34.66 to \$36.16.

The Company does not propose to change any of its service charges or its service line and meter installation charges. Staff recommends discontinuation of the Establishment (After Hours) and Reconnection (Delinquent) After Hours charges and establishment of an After Hours Service Charge of \$10.00. The \$10.00 would be applicable to all services provided after hours at the

request/convenience of the customer. Staff also recommends increasing the Fire Sprinkler Charges to 2.00 percent on the monthly minimum of a comparable-sized meter connection, but no less than \$10.00 per month.

FINANCIAL ANALYSIS – LOAN AUTHORIZATION REQUEST

Purpose and Description of the Requested Financing

As discussed above, the Company is experiencing large water losses and has obtained an independent contractor to assess its infrastructure and recommend improvements designed to mitigate the water loss. The recommended improvements include: drilling a new production well, installing a 10,000-gallon water tank, constructing a booster station and installing pipe lines to interconnect water system components. The Company has applied to WIFA for a \$271,000 loan to finance the estimated cost of the improvements. The Company's application notes that as a "very small water system" it is eligible for a one percent interest rate with a 20- or 30-year term. Although the Company may satisfy the eligibility requirements for a 1.00 percent interest loan, WIFA informed Staff that the Company would receive a typical loan based on the prime rate (currently 3.25 percent) plus 2.00 percent and an 85 percent subsidy rate.⁴ The typical loan is for 20 years with a 19.5-year amortization (interest only for the first six months). As shown in Schedule GTM-7, the annual debt service (principal and interest) on a \$271,000, 20-year amortizing loan at 4.46 percent per annum is \$21,100. WIFA also requires funding of a Reserve Fund or Replacement Fund equal to 20 percent of the debt service, in this instance \$4,220. Thus, the total annual cash requirement for this loan is \$25,320.

Debt Service Coverage

Due to the Reserve Fund requirement, a minimum debt service coverage ratio ("DSC")⁵ of 1.2 is necessary to provide break-even cash flow with a WIFA loan. Since additional funds are needed for contingencies, a 1.2 DSC is insufficient. Staff calculated a pro forma 0.31 DSC using Staff's recommended permanent rates, as shown in Schedule GTM-6. This pro forma DSC shows that cash flow from operations is insufficient to cover debt service on the proposed loan; accordingly, the Company would need a source of funds other than permanent rates to meet all obligations including the proposed loan. Staff calculated that the Company would need additional funds of \$19,932, representing a 121.3 percent increase over test year revenues of \$16,433 to provide a 1.25 DSC and sufficient cash flow to meet all obligations including WIFA's requirement to fund a "Debt Service Reserve Fund" equal to 20 percent of debt service and a nominal amount for contingencies.

⁴ $(3.25\% + 2.00\%) \times .85 = 4.4625\%$.

⁵ DSC represents the number of times internally generated cash will cover required principal and interest payments on short-term and long-term loans.

Loan Surcharge

A \$40.51 per meter monthly loan surcharge would provide the needed additional funds under Staff's assumed loan terms. The loan surcharge combined with Staff's recommended permanent rates would increase the typical bill for a 5/8 x 3/4-inch meter customer with a median use of 430 gallons by \$42.01, or 121.2 percent, from \$34.66 to \$76.67. Since the first payment on a WIFA loan becomes due six months after execution, a time window is available for the Company to obtain the loan, submit the loan documents to the Commission and obtain authorization to implement a loan surcharge after the terms of the loan become known.

Capital Structure

As of October 30, 2010, Parker Spring's capital structure consisted of 0.0 percent short-term debt, 0.0 percent long-term debt, and 100.0 percent equity, as shown in Schedule GTM-6. Staff calculated a pro forma capital structure reflecting issuance of a \$271,000, 19.5-year amortizing loan at 4.46 percent per annum ((prime rate, 3.25 percent + 2.00 percent) x subsidy rate, 0.85), and it is composed of 0.0 percent short-term debt, 88.4 percent long-term debt and 11.6 percent equity.

Encumbrance

A.A.C. R18-15-104 requires WIFA borrowers to pledge their revenue sources to repay the financial assistance. Arizona Revised Statutes ("A.R.S.") § 40-285 requires public service corporations to obtain Commission authorization to encumber certain utility assets. The statute serves to protect captive customers from a utility's act to dispose of any of its assets that are necessary for the provision of service, thus, it serves to preempt any service impairment due to disposal of assets essential for providing service. Pledging assets as security typically provides benefits to the borrower in the way of increased access to capital funds or preferable interest rates, and it is often an unavoidable condition for procurement of funds for small or financially stressed entities.

STAFF RECOMMENDATIONS

Staff recommends:

- Approval of Staff's rates and charges as shown in Schedule GTM-4. In addition to collection of its regular rate and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax per Commission Rule 14-2-409D-5.
- Directing the Company to docket with the Commission a schedule of its approved rates and charges within 30 days after the date the Decision in this matter is issued.

- Authorizing the depreciation rates shown in Table B of the Engineering report.
- Authorizing the meter and service line charges shown on Table C of the Engineering report.
- Granting the Company authorization to incur an 18- to 22-year amortizing loan in an amount not to exceed \$271,000 pursuant to a loan agreement with WIFA and at an interest rate not to exceed that available from WIFA subject to the condition that the Company is authorized sufficient revenue in this rate case via permanent rates and a loan surcharge to meet its debt service and the associated loan covenants.
- Granting the Company authorization to charge a loan surcharge to become effective at a date and in a manner as subsequently authorized by the Commission and directing the Company to file with Docket Control, as a compliance item in this matter, within 30 days of the execution of the loan documents, copies of the executed loan documents and a request for Commission authorization to implement a loan surcharge.
- Authorizing Parker Springs to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285 and A.A.C. R18-15-104 in connection with the WIFA loan.
- Ordering termination of any authorization to incur debt granted in this proceeding that remains unused by December 31, 2013.
- Authorizing Parker Springs to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.
- Directing Parker Springs to file with Docket Control, as a compliance item in this docket, by August 1, 2012, a copy of the ADEQ Certificate for Approval of Construction for the installation of the new well.
- Directing Parker Springs to notify customers by mail in its next billing of its proposed increase in revenue over the test year in dollars and percent, Staff's recommended increase in permanent revenue in dollars and percent, the dollar amount of its financing request, Staff's estimate of the per customer monthly loan surcharge and that the loan surcharge combined with Staff's recommended permanent rates would increase the typical bill for a 5/8 x 3/4-inch meter customer with a median use of 430 gallons by \$42.01, or 121.2 percent, from \$34.66 to \$76.67.

Parker Lakeview Estates H.O.A. dba Parker Springs Water Co.

Docket Nos W-01853A-11-0065 & W-01853A-11-0050

Schedule GTM-1

Test Year Ended October 30, 2010

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$16,375	\$16,375	\$23,813	\$18,244
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	58	58	58	58
Total Operating Revenue	\$16,433	\$16,433	\$23,871	\$18,302
Operating Expenses:				
Operation and Maintenance	\$11,604	\$11,469	\$11,604	\$11,469
Depreciation	4,728	2,473	4,728	2,473
Property & Other Taxes	390	390	390	390
Income Tax	0	0	0	0
Total Operating Expense	\$16,722	\$14,332	\$16,722	\$14,332
Operating Income/(Loss)	(\$289)	\$2,101	\$7,149	\$3,970
Rate Base O.C.L.D.	\$39,969	\$34,523	\$39,969	\$34,523
Rate of Return - O.C.L.D.	N/M	6.09%	17.89%	11.50%
Times Interest Earned Ratio (Pre-Tax)	N/M	N/M	N/M	N/M
Debt Service Coverage Ratio (Pre-Tax)	N/M	N/M	N/M	N/M
Operating Margin	N/M	12.79%	29.95%	21.69%

- NOTES:
1. The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.
 2. Because the Company has zero outstanding long term debt, the TIER and DSC ratios are not meaningful.
 3. Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

RATE BASE

	----- Original Cost -----			
	Company	Adjustment		Staff
Plant in Service	\$95,833	(\$15,000)	A	\$80,833
Less:				
Accum. Depreciation	54,514	(8,380)	B	46,134
Net Plant	\$41,319	(\$6,620)		\$34,699
Less:				
Plant Advances	\$1,190	\$0		\$1,190
Customer Deposits	160	0		160
Total Advances	\$1,350	\$0		\$1,350
Contributions Gross	\$0	\$0		\$0
Less:				
Amortization of CIAC	0	0		0
Net CIAC	\$0	\$0		\$0
Total Deductions	\$1,350	\$0		\$1,350
Plus:				
1/24 Power	(\$0)	\$130	C	\$130
1/8 Operation & Maint.	(0)	1,044	C	1,044
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	(\$0)	\$1,174		\$1,174
Rate Base	\$39,969	(\$5,446)		\$34,523

Explanation of Adjustment:

- A Staff reclassified the \$15,000 cost of an engineering study paid for by WIFA grant related projects not placed into utility service to Construction Work in Progress.
- B Decrease to accumulated depreciation to reflect revised depreciation expense.
- C Parker did not request a cash working capital allowance. Staff calculated a cash working capital allowance using Staff adjusted operating expenses.

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	0	0	0
304 Structures & Improvements	243	0	243
307 Wells & Springs	19,500	(15,000) A	4,500
310 Power Generated Equipment	15,472	0	15,472
311 Pumping Equipment	1,473	0	1,473
320.1 Water Treatment Equipment	0	0	0
320.2 Solution Chemical Feeders	1,084	0	1,084
330.1 Storage Tanks	1,958	0	1,958
330.2 Pressure Tanks	3,387	0	3,387
331 Transmission & Distribution Mains	41,036	0	41,036
333 Services	9,048	0	9,048
334 Meters & Meter Installations	2,352	0	2,352
335 Hydrants	0	0	0
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	0	0	0
340 Office Furniture & Equipment	0	0	0
341 Transportation Equipment	0	0	0
343 Tools Shop & Garage Equipment	282	0	282
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	0	0	0
	0	0	0
TOTALS	\$95,833	(\$15,000)	\$80,833

Explanation of Adjustment:

- A Staff reclassified the \$15,000 cost of an engineering study paid for by WIFA grant related to projects not placed into utility service to Construction Work in Progress.

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$54,514
Accumulated Depreciation - Per Staff	<u>46,134</u>
Total Adjustment	<u><u>(\$8,380)</u></u>

Explanation of Adjustment:

- B - To reflect application of the authorized depreciation rates in the intervening years between rate cases and to remove depreciation accrued on fully depreciated plant and to recognize retirements.

<u>Accumulated Depreciation Balances</u>	Per Company	Per Staff
304 Structures & Improvements	243	243
307 Wells & Springs	4,500	4,500
310 Power Generated Equipment	6,253	6,381
311 Pumping Equipment	1,115	1,256
320 Water Treatment Equipment	-	-
320.2 Water Treatment Plant	-	-
330.1 Solution Chemical Feeders	188	325
330.1 Storage Tanks	1,958	-
330.1 Storage Tanks	395	1,958
330.2 Pressure Tanks	-	423
331 Transmission & Distribution Mains	34,294	28,592
333 Services	2,054	1,612
334 Meters & Meter Installations	898	837
335 Hydrants	-	-
336 Backflow Prevention Devices	-	-
339 Other Plant and Misc. Equipment	-	-
340 Office Furniture & Equipment	-	-
341 Transportation Equipment	-	-
343 Tools Shop & Garage Equipment	14	7
344 Laboratory Equipment	-	-
345 Power Operated Equipment	-	-
346 Communication Equipment	-	-
347 Miscellaneous Equipment	-	-
348 Other Tangible Plant	-	-
Engineering Study	2,604	-
Total Accumulated Depreciation	<u><u>54,514</u></u>	<u><u>46,134</u></u>

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$16,375	\$0	\$16,375
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	58	0	58
Total Operating Revenue	\$16,433	\$0	\$16,433
Operating Expenses:			
601 Salaries and Wages	\$0	\$0	\$0
610 Purchased Water	0	0	0
615 Purchased Power	3,119	0	3,119
618 Chemicals	70	0	70
620 Repairs and Maintenance	566	0	566
621 Office Supplies & Expense	397	0	397
630 Outside Services	6,044	0	6,044
635 Water Testing	1,154	(135) C	1,019
641 Rents	224	0	224
650 Transportation Expenses	54	0	54
657 Insurance - General Liability	0	0	0
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	0	0	0
675 Miscellaneous Expense	(24)	0	(24)
403 Depreciation Expense	4,728	(2,255) D	2,473
408 Taxes Other Than Income	50	0	50
408.11 Property Taxes	340	0	340
409 Income Tax	0	0	0
Total Operating Expenses	\$16,722	(\$2,390)	\$14,332

OPERATING INCOME/(LOSS)	(\$289)	\$2,390	\$2,101
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Other Income/(Expense):			
419 Interest and Dividend Income	\$0	\$0	\$0
421 Non-Utility Income	0	0	0
427 Interest Expense	0	0	0
426 Miscellaneous Non-Utility Expense	0	0	0

Total Other Income/(Expense)	\$0	\$0	\$0
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NET INCOME/(LOSS)	(\$289)	\$2,390	\$2,101
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STAFF ADJUSTMENTS

C -	WATER TESTING - Per Company	\$1,154	
	Per Staff	<u>1,019</u>	<u>(\$135)</u>

To recognize the average on-going water testing expenses.

D -	DEPRECIATION - Per Company	\$4,728	
	Per Staff	<u>2,473</u>	<u>(\$2,255)</u>

To reflect application of Staff's depreciation rates to Staff's depreciable plant balances by account.

Parker Lakeview Estates H.O.A. dba Parker Springs Water Co.

Docket Nos. W-01853A-11-0065 & W-01853A-11-0050
Test Year Ended October 30, 2010

Schedule GTM-3
Page 3 of 3

OPERATING INCOME ADJUSTMENT D - DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Depreciation Expense	\$ 4,728	\$ (2,255)	\$ 2,473

Line No.	ACCT NO.	DESCRIPTION	[A] Company Proposed PLANT IN SERVICE BALANCE	[B] STAFF DEPR. PLANT BALANCE	ACC # 71456 [C] STAFF RECOMMENDED RATE	[D] STAFF RECOMMENDED EXPENSE
		Plant In Service				
2	301	Organization	\$ -	\$ -	0.00%	\$ -
3	302	Franchises	-	-	0.00%	\$ -
4	303	Land & Land Rights	-	-	0.00%	-
5	304	Structures & Improvements	243	243	3.33%	
6	307	Wells & Springs	19,500	4,500	3.33%	
7	310	Power Generating Equipment	15,472	15,472	5.00%	774
8	311	Pumping Equipment	1,473	1,473	12.50%	184
9	320.1	Water Treatment Plants	-	-	3.33%	-
10	320.2	Solution Chemical Feeders	1,084	1,084	20.00%	217
11	330.1	Storage Tanks	1,958	1,958	2.22%	
12	330.2	Pressure Tanks	3,387	3,387	5.00%	169
13	331	Transmission & Distribution Mains	41,036	41,036	2.00%	821
14	333	Services	9,048	9,048	3.33%	301
15	334	Meters & Meter Installations	2,352	2,352	8.33%	
16	335	Hydrants	-	-	2.00%	-
17	336	Backflow Prevention Devices	-	-	6.67%	-
18	339	Other Plant and Misc. Equipment	-	-	6.67%	-
19	340	Office Furniture & Equipment	-	-	6.67%	-
20	341	Transportation Equipment	-	-	20.00%	-
21	343	Tools Shop & Garage Equipment	282	282	5.00%	7
22	344	Laboratory Equipment	-	-	10.00%	-
23	345	Power Operated Equipment	-	-	5.00%	-
24	346	Communication Equipment	-	-	10.00%	-
25	347	Miscellaneous Equipment	-	-	10.00%	-
26	348	Other Tangible Plant	-	-	0.00%	-
27			-	-		-
28						
29		Subtotal General	\$ 95,833	\$ 80,833		\$ 2,473
30		Less: Non- depreciable Account(s)	-	-		
31		Depreciable Plant (L29-L30)	\$ 95,833	\$ 80,833		
32						
33		Contributions-in-Aid-of-Construction (CIAC)			\$ -	
34		Weighted Average Depreciation/Amortization Rate			3.0592%	
35		Less: Amortization of CIAC (L32 x L33)				\$ -
36		Depreciation Expense - STAFF				\$ 2,473

Pro Forma Depreciation Expense Calculation

Plant in Service	\$ 80,833
Less: Non-depreciable plant	-
Fully depreciated plant	-
Depreciable Plant	\$ 80,833
Times: Staff weighted average depreciation rate	3.0592%
Depreciation expense before amortization of CIAC	2,473
Less: Amortization of CIAC	-
Test Year Depreciation - Staff	2,473
Depreciation expense - Company	4,728
Staff recommended adjustment	\$ (2,255)

Parker Lakeview Estates H.O.A. dba Parker Springs V Schedule GTM-6

Docket Nos W-01853A-11-0065 & W-01853A-11-0050

Schedule GTM-4

Test Year Ended October 30, 2010

Page 1 of 2

RATE DESIGN

		Present	-Proposed Rates-	
Monthly Usage Charge		Rates	Company	Staff
5/8" x 3/4" Meter		\$33.50	\$48.50	\$35.00
3/4" Meter		36.00	51.00	52.50
1" Meter		83.00	98.00	87.50
1½" Meter		165.00	165.00	175.00
2" Meter		270.00	270.00	280.00
3" Meter		535.00	535.00	560.00
4" Meter		840.00	840.00	875.00
6" Meter		1,070.00	1,070.00	1,750.00
Gallons Included in Minimum		0	0	0
<u>Commodity Rate Charge</u>				
<i>5/8" x 3/4" Meter</i>				
Tier 1	From 0 to 3,000 gallons	2.70	2.70	2.70
Tier 2	From 3,001 to 8,000 gallons	3.00	3.00	4.50
Tier 3	Over 8,000 gallons	3.25	3.25	5.40
<i>3/4" Meter</i>				
Tier 1	From 0 to 3,000 gallons	2.70	2.70	2.70
Tier 2	From 3,001 to 8000 gallons	3.00	3.00	4.50
Tier 3	Over 8,000 gallons	3.25	3.25	5.40
<i>1" Meter</i>				
Tier 1	From 0 to 10,000 gallons	3.00	3.00	4.50
Tier 2	Over 10,000 gallons	3.25	3.25	5.40
<i>1½" Meter</i>				
Tier 1	From 0 to 20,000 gallons	3.00	3.00	4.50
Tier 2	Over 20,000 gallons	3.25	3.25	5.40
<i>2" Meter</i>				
Tier 1	From 0 to 40,000 gallons	3.00	3.00	4.50
Tier 2	Over 40,000 gallons	3.25	3.25	5.40
<i>3" Meter</i>				
Tier 1	From 0 to 144,000 gallons	3.00	3.00	4.50
Tier 2	Over 144,000 gallons	3.25	3.25	5.40
<i>4" Meter</i>				
Tier 1	From 0 to 225,000 gallons	3.00	3.00	4.50
Tier 2	Over 225,000 gallons	3.25	3.25	5.40

RATE DESIGN

6" Meter

Tier 1	From 0 to 450,000 gallons	3.00	3.00	4.50
Tier 2	Over 450,000 gallons	3.25	3.25	5.40

Service Line and Meter Installation Charges			Service Line	Meter Installation	Total
5/8" x 3/4" Meter	\$520.00	\$520.00	415	105	\$520.00
3/4" Meter	620.00	620.00	415	205	620.00
1" Meter	780.00	780.00	480	300	780.00
1½" Meter	1,050.00	1,050.00	550	500	1,050.00
2" Meter	Cost	Cost	Cost	Cost	Cost
3" Meter	Cost	Cost	Cost	Cost	Cost
4" Meter	Cost	Cost	Cost	Cost	Cost
6" Meter	Cost	Cost	Cost	Cost	Cost

Service Charges

Establishment	\$30.00	\$30.00	\$30.00
Establishment (After Hours)	40.00	40.00	NT
Reconnection (Delinquent)	30.00	30.00	30.00
Reconnection (Delinquent) After Hours	40.00	40.00	NT
Meter Test (If Correct)	30.00	30.00	30.00
Deposit	see below *		*
Deposit Interest	6.00%	6.00%	*
Re-Establishment (Within 12 Months)	see below	**	**
NSF Check	20.00	20.00	20.00
Deferred Payment	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	15.00	15.00	15.00
Late Fee	***	***	***
After Hours Service Charge	NT	NT	10.00

NT = No Tariff

Monthly Service Charge for Fire Sprinkler

4" or Smaller	\$0.00	\$0.00	****
6"	0.00	0.00	****
8"	0.00	0.00	****
10"	0.00	0.00	****
Larger than 10"	0.00	0.00	****

- * Per Commission Rules (R14-2-403.B)
- ** Months off system times the minimum (R14-2-403.D)
- *** 1.5% on the unpaid balance per month
- **** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

WIFA LOAN FINANCIAL ANALYSIS

Test Year Income Statement, Capital Structure and Pro Forma Based on Audit
Including Immediate Effects of the Proposed Debt

INCOME STATEMENT

	<i>Pro Forma Permanent Rates</i>	<i>Pro Forma With Surcharge</i>
Operating Revenue:	\$18,302	\$18,302
Operating Expenses:		
Purchased Water/Pumping Power	\$3,119	\$3,119
Admin. & General	6,641	6,641
Maintenance & Testing	1,709	1,709
Depreciation (d)	2,473	2,473
Property Taxes	340	340
Other taxes	50	50
Total Operating Expense	<u>\$14,332</u>	<u>\$14,332</u>
Pre-Tax Operating Income	\$3,970	\$3,970
Loan Surcharge	\$0	\$19,932
Interest Expense (b)	<u>11,907</u>	<u>11,907</u>
Pre-Tax Net Income (a)	<u><u>(\$7,937)</u></u>	<u><u>\$11,995</u></u>
Principal Repayment (c)	9,193	9,193
Reserve/Replacement Deposit (e)	4,220	4,220
TIER (Times Interest Earned Ratio)		
(a) ÷ (b)	0.33	1.11
DSC (Debt Service Coverage)		
[(a) + (d)] ÷ [(b) + (c)]	0.31	1.25
CCR (Cash Coverage Ratio)		
[(a) + (b)] ÷ (a)	0.54	2.22

CAPITAL STRUCTURE

Short-term Debt	\$0	0.0%	\$0	0.0%
Long-term Debt	\$271,000	88.4%	\$271,000	88.4%
Common Equity	\$35,599	11.6%	\$35,599	11.6%
Total Capital	\$306,599	100.0%	\$306,599	100.0%

TYPICAL BILL ANALYSIS

General Service 5/8 X 3/4 - Inch Meter (Without Loan Surcharge)

Average Number of Customers: 41

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	851	\$35.80	\$50.80	\$15.00	41.9%
Median Usage	430	\$34.66	\$49.66	\$15.00	43.3%
<u>Staff Recommend</u>					
Average Usage	851	\$35.80	\$37.30	\$1.50	4.2%
Median Usage	430	\$34.66	\$36.16	\$1.50	4.3%

Present & Proposed Rates (Without Taxes) General Service 5/8 X 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$33.50	\$48.50	44.8%	\$35.00	4.5%
1,000	36.20	51.20	41.4%	37.70	4.1%
2,000	38.90	53.90	38.6%	40.40	3.9%
3,000	41.60	56.60	36.1%	43.10	3.6%
4,000	44.60	59.60	33.6%	47.60	6.7%
5,000	47.60	62.60	31.5%	52.10	9.5%
6,000	50.60	65.60	29.6%	56.60	11.9%
7,000	53.60	68.60	28.0%	61.10	14.0%
8,000	56.60	71.60	26.5%	65.60	15.9%
9,000	59.85	74.85	25.1%	71.00	18.6%
10,000	63.10	78.10	23.8%	76.40	21.1%
15,000	79.35	94.35	18.9%	103.40	30.3%
20,000	95.60	110.60	15.7%	130.40	36.4%
25,000	111.85	126.85	13.4%	157.40	40.7%
50,000	193.10	208.10	7.8%	292.40	51.4%
75,000	274.35	289.35	5.5%	427.40	55.8%
100,000	355.60	370.60	4.2%	562.40	58.2%
125,000	436.85	451.85	3.4%	697.40	59.6%
150,000	518.10	533.10	2.9%	832.40	60.7%
175,000	599.35	614.35	2.5%	967.40	61.4%
200,000	680.60	695.60	2.2%	1,102.40	62.0%

TYPICAL BILL ANALYSIS

General Service 5/8 X 3/4 - Inch Meter (Includes Loan Surcharge)

Average Number of Customers: 41

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	851	\$35.80	\$50.80	\$15.00	41.9%
Median Usage	430	\$34.66	\$49.66	\$15.00	43.3%
<u>Staff Recommend</u>					
Average Usage	851	\$35.80	\$ 77.81 ¹	\$42.01	117.4%
Median Usage	430	\$34.66	\$ 76.67 ¹	\$42.01	121.2%

Present & Proposed Rates (Without Taxes) General Service 5/8 X 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$33.50	\$48.50	44.8%	\$ 75.51	125.4%
1,000	36.20	51.20	41.4%	78.21	116.1%
2,000	38.90	53.90	38.6%	80.91	108.0%
3,000	41.60	56.60	36.1%	83.61	101.0%
4,000	44.60	59.60	33.6%	88.11	97.6%
5,000	47.60	62.60	31.5%	92.61	94.6%
6,000	50.60	65.60	29.6%	97.11	91.9%
7,000	53.60	68.60	28.0%	101.61	89.6%
8,000	56.60	71.60	26.5%	106.11	87.5%
9,000	59.85	74.85	25.1%	111.51	86.3%
10,000	63.10	78.10	23.8%	116.91	85.3%
15,000	79.35	94.35	18.9%	143.91	81.4%
20,000	95.60	110.60	15.7%	170.91	78.8%
25,000	111.85	126.85	13.4%	197.91	76.9%
50,000	193.10	208.10	7.8%	332.91	72.4%
75,000	274.35	289.35	5.5%	467.91	70.6%
100,000	355.60	370.60	4.2%	602.91	69.5%
125,000	436.85	451.85	3.4%	737.91	68.9%
150,000	518.10	533.10	2.9%	872.91	68.5%
175,000	599.35	614.35	2.5%	1,007.91	68.2%
200,000	680.60	695.60	2.2%	1,142.91	67.9%

¹ Includes a \$40.51 loan surcharge.

WIFA LOAN FINANCIAL ANALYSIS

Test Year Income Statement, Capital Structure and Pro Forma Based on Audit
Including Immediate Effects of the Proposed Debt

INCOME STATEMENT

	<i>Pro Forma Permanent Rates</i>	<i>Pro Forma With Surcharge</i>
Operating Revenue:	\$18,302	\$18,302
Operating Expenses:		
Purchased Water/Pumping Power	\$3,119	\$3,119
Admin. & General	6,641	6,641
Maintenance & Testing	1,709	1,709
Depreciation (d)	2,473	2,473
Property Taxes	340	340
Other taxes	50	50
Total Operating Expense	<u>\$14,332</u>	<u>\$14,332</u>
Pre-Tax Operating Income	\$3,970	\$3,970
Loan Surcharge	\$0	\$19,932
Interest Expense (b)	<u>11,907</u>	<u>11,907</u>
Pre-Tax Net Income (a)	<u><u>(\$7,937)</u></u>	<u><u>\$11,995</u></u>
Principal Repayment (c)	9,193	9,193
Reserve/Replacement Deposit (e)	4,220	4,220
TIER (Times Interest Earned Ratio)		
(a) ÷ (b)	0.33	1.11
DSC (Debt Service Coverage)		
[(a) + (d)] ÷ [(b) + (c)]	0.31	1.25
CCR (Cash Coverage Ratio)		
[(a) + (b)] ÷ (a)	0.54	2.22

CAPITAL STRUCTURE

Short-term Debt	\$0	0.0%	\$0	0.0%
Long-term Debt	\$271,000	88.4%	\$271,000	88.4%
Common Equity	\$35,599	11.6%	\$35,599	11.6%
Total Capital	\$306,599	100.0%	\$306,599	100.0%

TERMS OF PROPOSED WIFA LOAN

Terms and Conditions

Loan Amount	\$271,000.00
Term (No. of Years)	20
Combined Interest & Fee Rate	
Interest Rate Index	5.25%
Subsidy Rate Index	85.00%
Combined Interest & Fee Rate	4.46%
Coverage Requirement	20.00%
Debt Service Reserve Requirement	\$21,099.72
Number of Years Debt Service Reserve Funded	5

Monthly Fixed payment to WIFA

Years 1 through 5

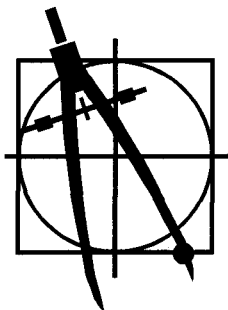
Monthly Fixed Payments to WIFA	\$1,758.31
Monthly Debt Service Reserve Deposit	\$351.66
Monthly Replacement Fund Deposit	\$0.00
Total Monthly Fixed Payment	\$2,109.97

Years 6 through 20

Monthly Fixed Payments to WIFA	\$1,758.31
Monthly Debt Service Reserve Deposit	0.00
Monthly Replacement Fund Deposit	\$ 351.66
Total Monthly Fixed Payment	\$2,109.97

Annual Fiscal Impact

Year	Annual Debt Service	Reserve Fund Deposit	Replacement Fund Deposit	Total Annual Fiscal Impact
1	\$21,099.72	\$4,219.94	\$0.00	\$25,319.66
2	21,099.72	4,219.94	0.00	25,319.66
3	21,099.72	4,219.94	0.00	25,319.66
4	21,099.72	4,219.94	0.00	25,319.66
5	21,099.72	4,219.94	0.00	25,319.66
6	21,099.72	0.00	4,219.94	25,319.66
7	21,099.72	0.00	4,219.94	25,319.66
8	21,099.72	0.00	4,219.94	25,319.66
9	21,099.72	0.00	4,219.94	25,319.66
10	21,099.72	0.00	4,219.94	25,319.66
11	21,099.72	0.00	4,219.94	25,319.66
12	21,099.72	0.00	4,219.94	25,319.66
13	21,099.72	0.00	4,219.94	25,319.66
14	21,099.72	0.00	4,219.94	25,319.66
15	21,099.72	0.00	4,219.94	25,319.66
16	21,099.72	0.00	4,219.94	25,319.66
17	21,099.72	0.00	4,219.94	25,319.66
18	21,099.72	0.00	4,219.94	25,319.66
19	21,099.72	0.00	4,219.94	25,319.66
20	21,099.72	0.00	4,219.94	25,319.66
21	0.00	0.00	0.00	0.00
22	0.00	0.00	0.00	0.00
23	0.00	0.00	0.00	0.00
24	0.00	0.00	0.00	0.00
25	0.00	0.00	0.00	0.00
26	0.00	0.00	0.00	0.00
27	0.00	0.00	0.00	0.00
28	0.00	0.00	0.00	0.00
29	0.00	0.00	0.00	0.00
30	0.00	0.00	0.00	0.00
	\$421,994.41	\$21,099.72	\$63,299.16	\$506,393.29



**Engineering Report for Parker Lakeview
Estates Homeowners Association, Inc.
DBA Parker Springs Water Company**

Docket No. W-01853A-11-0065 (Rates)

By Marlin Scott, Jr. 

April 26, 2011

CONCLUSIONS

- A. Parker Lakeview Estates Homeowners Association, Inc. DBA Parker Springs Water Company ("Company") has adequate well and storage capacity to serve the present customer base and reasonable growth.
- B. The Arizona Department of Environmental Quality ("ADEQ") has reported that the Company's system, PWS #02-045, is currently delivering water that meets the water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.
- C. The Company is not located in any Arizona Department of Water Resources ("ADWR") Active Management Area. According to the ADWR, this Company is in compliance with ADWR's requirements governing water providers and/or community water systems.
- D. A check of the Utilities Division Compliance database showed that the Company had no delinquent Commission compliance item.
- E. The Company has an approved curtailment tariff with an effective date of January 6, 2010.
- F. The Company has an approved backflow prevention tariff with an effective date of August 14, 1995.

RECOMMENDATIONS

- 1. Staff recommends an annual water testing expense of \$1,019 and operator's fee of \$2,100 which total to \$3,119 be used for purposes of this application.
- 2. Staff recommends that the Company continue to use the depreciation rates by individual National Association of Regulatory Utility Commissioners category as delineated in Table B.

Parker Lakeview Estates Homeowners Association, Inc.

DBA Parker Springs Water Company

April 26, 2011

Page 2

3. Staff recommends that the Company continue to use the Service Line and Meter Installation charges as delineated in Table C.

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A. INTRODUCTION

On February 3, 2011, Parker Lakeview Estates Homeowners Association, Inc. DBA Parker Springs Water Company ("Company") filed a rate application which became sufficient on March 7, 2011. On January 28, 2011, the Company filed a financing application. These two cases were consolidated on March 9, 2011. This Engineering Report, with its attachment, constitutes Staff's engineering evaluation relative to the consolidated applications.

Location of Company

The Company provides water service to the Parker Lakeview Estates Subdivision located approximately 75 miles southeast of Tucson. Figure 1 shows the location of the Company within Cochise County and Figure 2 shows the Certificate of Convenience and Necessity covering approximately 1/3 square-miles.

B. DESCRIPTION OF THE WATER SYSTEM

The water system was field inspected on March 17, 2011, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Victor Chacon and Pat Spain, representing the Company and Kara Festa, Consultant from WestLand Resources, Inc.

The operation of the water system consists of one well that pumps 10 gallons per minute uphill for approximately one-half mile to a 10,000 gallon storage tank. The well is powered by propane generators. This storage tank is located at a higher elevation than the distribution system which was serving 41 customers during the test year ending October 2010. A system schematic is shown as Figure 3 and a detailed plant facility listing is as follows:

Table 1. Well Data

ADWR ID No.	Casing Size	Casing Depth	Pump Size/Type	Pump Yield	* Meter	Year Drilled
55-621240	12-inch	125 feet	2-Hp submersible	10 GPM	1"	1962

* Note: A new 1-inch wellhead meter was installed on March 12, 2011.

Table 2. Tank, Treatment & Structures Facilities

Location	Facilities
Tank Site	10,000 storage tank Solar-powered telemetry system
Well Site	Liquid chlorinator Chain link fencing, 10 feet x 16 feet Metal shed, 6 feet x 15 feet Two propane-powered generators: 4.5 kVA (Onan) & 12 kVa (Onan)

Table 3. Water Mains

Diameter	Material	Length
2-inch	PVC	2,400 ft.
4-inch	PVC	2,800 ft.
2-inch	GIP	1,436 ft.
	Total:	6,636 ft.

Table 4. Customer Meters

Size	# Quantity
5/8 x 3/4-inch	41
3/4-inch	-
1-inch	-
2-inch	-
4-inch	-
Total:	41

Note: According to the Company, two customers have recently drilled a well and are expected to share this well and no longer be customers of the Company.

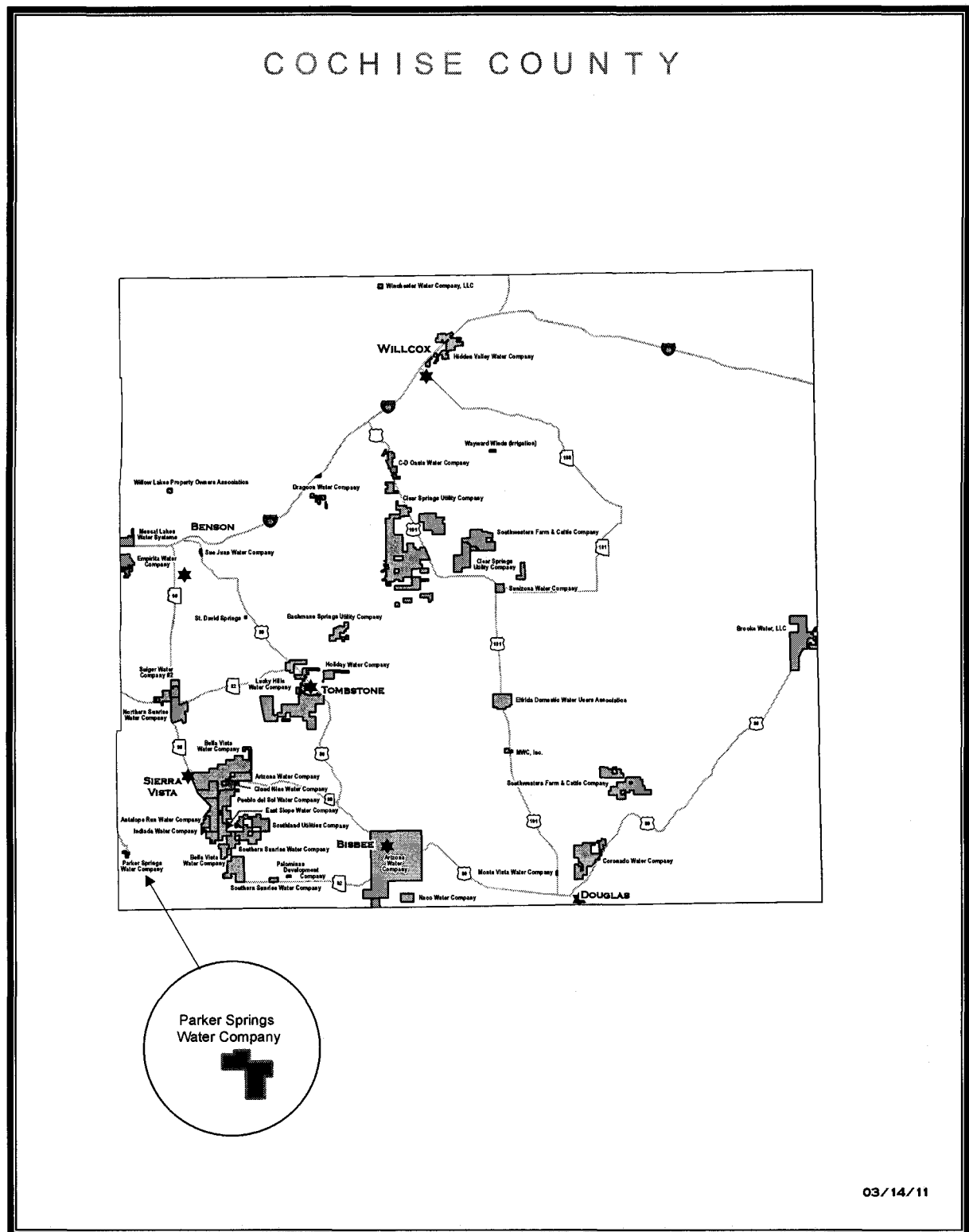


Figure 1. County Map

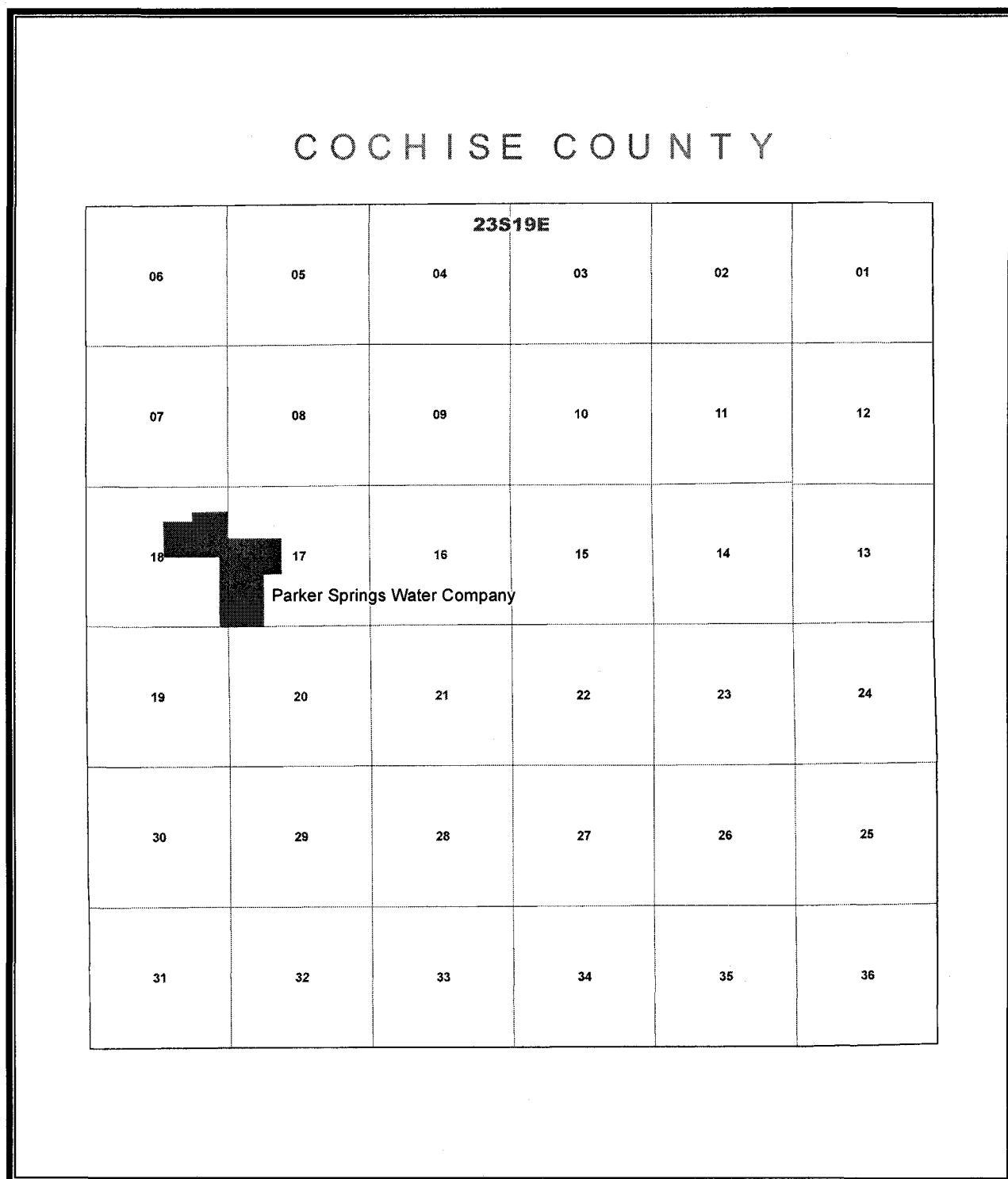


Figure 2. Certificated Area

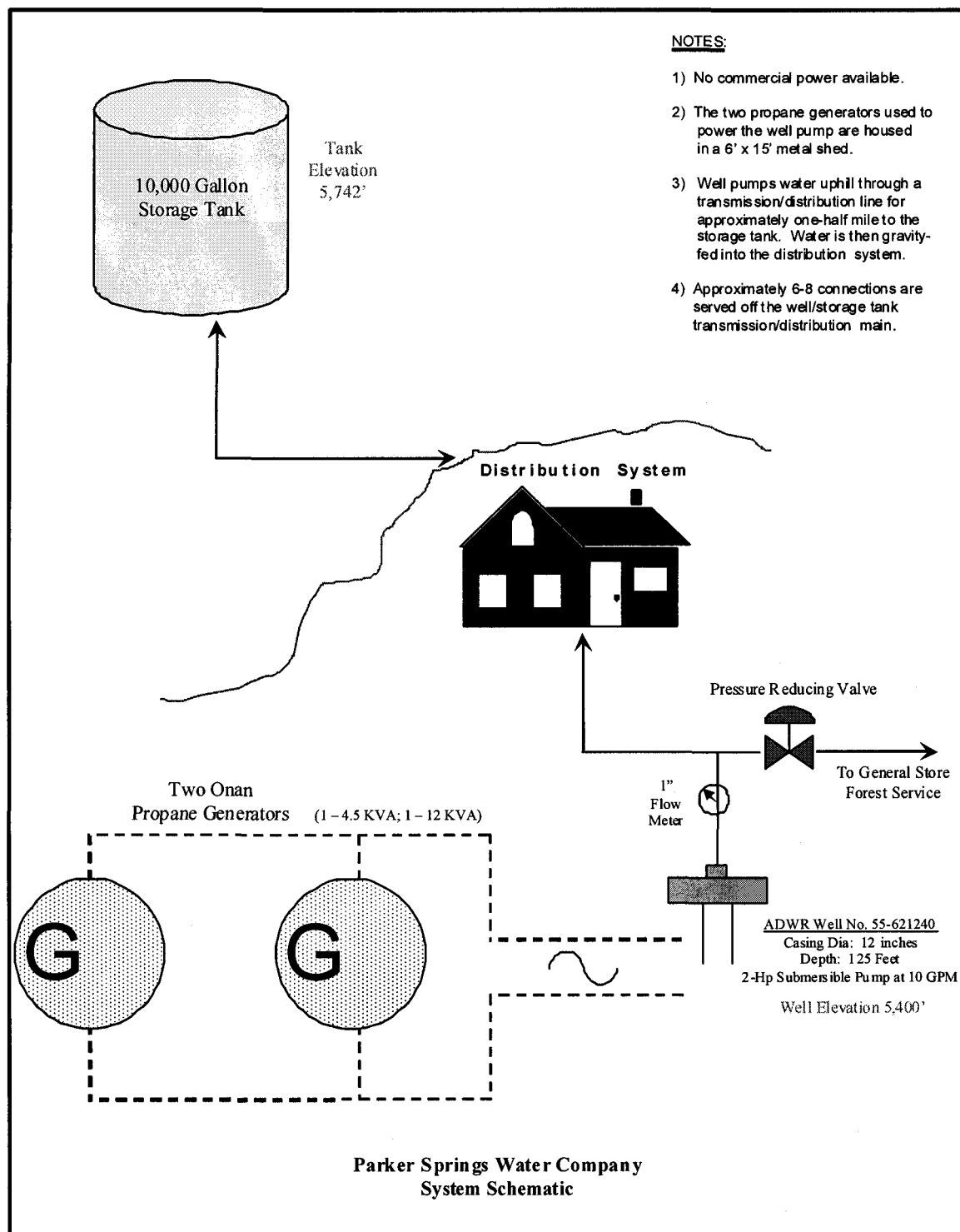


Figure 3. System Schematic

C. WATER USE

Water Sold

Figure 4 presents the water consumption data provided by the Company for the test year ending October 2010. The actual consumption was low due primarily because only 32 percent of the customers were full-time users during the test year. This figure shows the customer consumption experienced a high monthly usage of 38 gallons per day ("GPD") per connection in June and a low monthly water use of 9 GPD per connection in March for an average monthly use of 24 GPD per connection. Using individual customer usage data, one customer used 11,799 gallons during the peak month of June. This usage equates to 393 GPD per "full-time" connection, which is typical usage for an average customer.

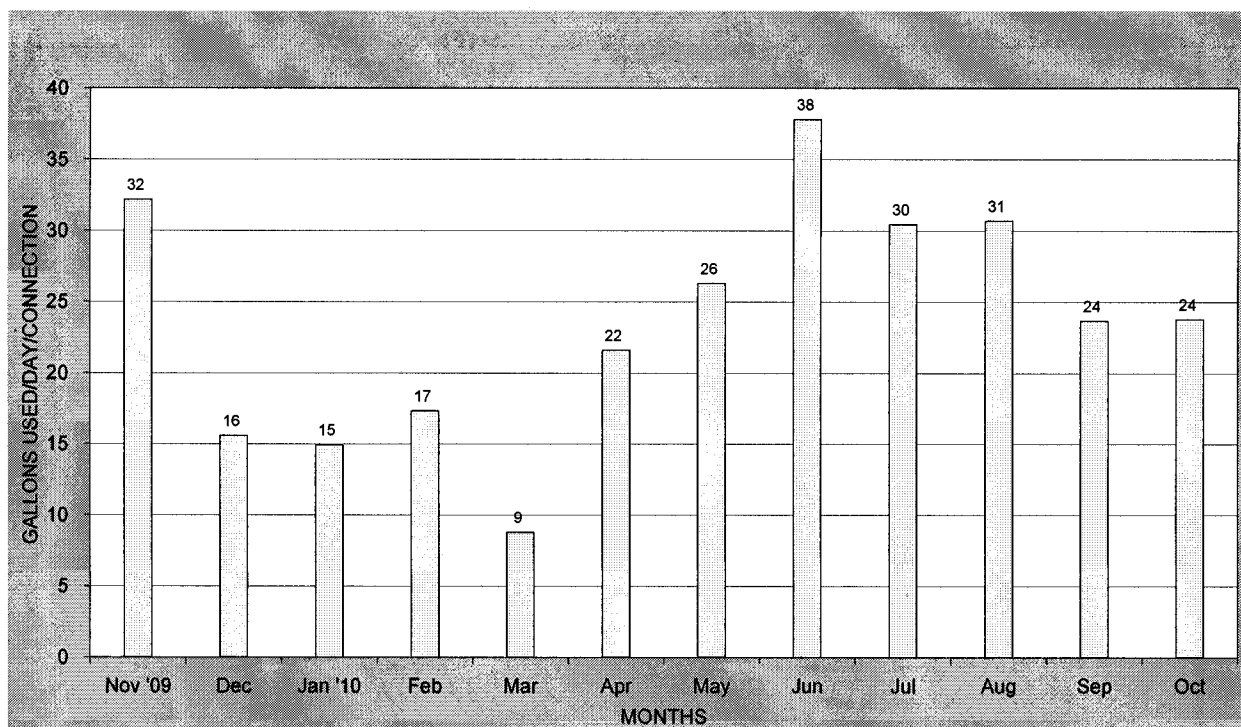


Figure 4. Water Use

Non-Account Water

Non-account water should be 10% or less. During the test year ending October 2010, the Company reported 572,200 gallons pumped and 349,500 gallons sold, resulting in a water loss of 38.9%. This 38.9% exceeds the acceptable level of 10%.

To address the high water loss, the Company has been monitoring its system, field tested the majority of the customer meters, and replaced the inaccurate customer and wellhead meters. In addition, per a consultant's report, the amount of lost water jumped suddenly which may indicate the likely hood of a water leak. Further discussion about this water loss issue is discussed in Section G – ACC Compliance.

System Analysis

The current well capacity of 10 GPM and storage capacity of 10,000 gallons is adequate to serve the present customer base and reasonable growth.

D. GROWTH

According to the Company's Annual Reports, the Company's customer base shows very minimal growth. Since 2007, the Company has added an average of one new service connection per year up to the test year customer base of 41. For purposes of its analysis, Staff anticipates that one new service connections per year will continue.

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE

Compliance

According to an ADEQ Compliance Status Report, dated December 16, 2010, ADEQ reported no deficiencies and has determined that the Company's system, PWS #02-045, is currently delivering water that meets the water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

Water Testing Expense

The Company is subject to mandatory participation in the Monitoring Assistance Program ("MAP"). The Company reported its water testing expense at \$1,154 during the test year and provided the water testing invoice statements that included the water operator's fee. Staff has reviewed these expenses and has recalculated the annual monitoring and operator's fee expenses. Table A shows Staff's adjusted annual expenses as follows:

Table A. Water Testing Expense

Monitoring	Cost per test	No. of test	Annual Cost
Total coliform – monthly	\$25	12	\$300
MAP – IOCs, Radiochemical, Nitrate,	MAP	MAP	\$352

Nitrite, Asbestos, SOCs, & VOCs			
Lead & Copper – per 3 years	\$40	5	\$67
Disinfection By-Products – annually	\$300	1	\$300
Subtotal:			\$1,019
Certified water operator - monthly	\$175	12	\$2,100
Total:			\$3,119

Note: ADEQ's MAP invoice for the 2010 Calendar Year was \$352.80.

Staff recommends an annual water testing expense of \$1,019 and operator's fee of \$2,100 which total to \$3,119 be used for purposes of this application.

F. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

The Company is not located in any ADWR Active Management Area. According to ADWR, this Company is in compliance with ADWR's requirements governing water providers and/or community water systems.

G. ARIZONA CORPORATION COMMISSION ("ACC") COMPLIANCE

Prior to the completion of this report, the Utilities Division Compliance database showed that the Company had one delinquent ACC compliance item. In the Company's prior rate case and its Decision No. 71456 (January 6, 2010), the Company was ordered to monitor its system and submit the results by February 6, 2011. If the monitoring result was greater than 10%, the Company was to file a report by April 6, 2011 containing a detailed analysis and plan to reduce water loss to 10% or less.

On March 29, 2011, the Company submitted its monitoring results. For the year ending 2010, the Company reported 542,700 gallons pumped and 340,000 gallons sold, resulting in a water loss of 37.4%.

On April 11, 2011, the Company filed a report discussing its water loss search process and its continuing effort to locate lost water. In addition, Staff has taken notice that the Company had two Water System Evaluations conducted by consultants and one consultant concluded that the amount of lost water has jumped suddenly which may indicate the likely hood of a water leak. Based on this finding, along with other recommended capital improvement, the Company has filed a financing application to address the water loss issue. Discussion related to the financing request (Docket No. 11-0050), is attached to this report as Attachment B.

Based on the above filings, Staff has determined that the Company has no delinquent ACC compliance issues.

H. DEPRECIATION RATES

In the prior rate case, the Company was ordered to use Staff's typical and customary depreciation rates. These depreciation rates are presented in Table B below and it is recommended that the Company continue to use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.

Table B. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00

I. OTHER ISSUES

1. Service Line and Meter Installation Charges

The Company has requested no changes in its service line and meter installation charges. These installation charges are presented in Table C below and it is recommended that the Company continue to use these charges.

Table C. Service Line and Meter Installation Charges

Meter Size	Service Line Charges	Meter Installation Charges	Total Charges
5/8 x 3/4-inch	\$415	\$105	\$520
3/4-inch	\$415	\$205	\$620
1-inch	\$480	\$300	\$780
1-1/2-inch	\$550	\$500	\$1,050
2-inch	Actual Cost	Actual Cost	Actual Cost
3-inch	Actual Cost	Actual Cost	Actual Cost
4-inch	Actual Cost	Actual Cost	Actual Cost
6-inch	Actual Cost	Actual Cost	Actual Cost

2. Curtailment Tariff

The Company has an approved curtailment tariff with an effective date of January 6, 2010.

3. Backflow Prevention Tariff

The Company has an approved backflow prevention tariff with an effective date of August 14, 1995.

4. ADEQ Water System Evaluations

The ADEQ and Water Infrastructure Finance Authority ("WIFA") have partnered to provide technical assistance to regulated public water systems ("PWSs") by providing water system evaluations ("WSEs"). These WSEs are utilized by ADEQ and WIFA to determine the priority ranking and funding needs for the PWSs and provide operational guidance to the utility. The Company was funded for two WSEs that were conducted by Applied EnviroSolutions, Inc. and WestLand Resources, Inc. These WSEs were submitted with the rate application and the

Parker Lakeview Estates Homeowners Association, Inc.

DBA Parker Springs Water Company

April 26, 2011


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recommended capital improvements from these WSEs are discussed in the financing request (Docket No. 11-0050) which is attached to this report as Attachment B.

MEMORANDUM

DATE: April 26, 2011

TO: Gary McMurry
Public Utilities Analyst V
Utilities Division

FROM: Marlin Scott, Jr. 
Utilities Engineer
Utilities Division

RE: Parker Lakeview Estates Homeowners Association, Inc. DBA Parker Springs Water Company
Docket No. W-01853A-11-0050 (Financing)

Introduction

On January 28, 2011, Parker Lakeview Estates Homeowners Association, Inc. DBA Parker Springs Water Company ("Company") submitted a financing application to assist in funding of certain capital improvement projects. The Company is requesting funding approval of \$271,000 through the use of Water Infrastructure Financing Authority ("WIFA") indebtedness.

Existing Water System

The existing operating system consists of one well (at 10 gallons per minute), a 10,000 gallon storage tank and a distribution system serving 41 customers. The well is powered by propane generators.

Proposed Capital Improvement Projects

Water System Evaluations

The Arizona Department of Environmental Quality ("ADEQ") and WIFA have partnered to provide technical assistance to regulated public water systems ("PWSs") by providing water system evaluations ("WSEs"). These WSEs are utilized by ADEQ and WIFA to determine the priority ranking and funding needs for the PWSs and provide operational guidance to the utility. The Company was funded for two WSEs that were conducted by Applied EnviroSolutions, Inc. and WestLand Resources, Inc. Both of these WSEs were submitted with the financing application. A brief summary of the consultants' reports are as follows:

A. Applied EnviroSolutions, Inc. ("AES") Water System Assessment Report

In February 2010, under the ADEQ Capacity Development Program, Applied EnviroSolutions, Inc. ("AES") produced a Water System Assessment Report that evaluated the overall water system operation. This report recommended improvements as follows:

Watershed and Potential Contamination:

The well is located approximately 400 feet east of Parker Canyon Lake. There is some concern that groundwater, which may be relatively shallow in the vicinity of the well, receives surface water from runoff from rain that collects in a depressed area west of the well. The Source Water Assessment conducted in 2002 states that the well has been given a low risk, designation even though it is hydro-geologically sensitive.

B. WestLand Resources, Inc. ("WLR") Water System Assessment Report

In March 2010, WLR produced another Water System Assessment Report in combination with a hydrogeologic assessment completed by BasinWells Associates PLLC. This report identified and recommended numerous improvements, with an emphasis that the existing well be replaced with a new source; i.e., a new well at a new location. This report also concluded that the amount of lost water jumped suddenly, which may indicate the likely hood of a water leak. The report noted that the Company has been alert for signs of a water leak in the system and has walked the waterline that run cross-country, but has not been able to detect any significant loss in the system. When a leak is found during the repair or replacement of existing lines, it can be repaired.

Company's Capital Improvement Projects

In its financing application and referenced within the WSEs, Westland and BasinWells identified and recommended the following capital improvement projects:

1. Drill new production well to replace the existing well	\$ 45,000
2. Equip and incorporate the new well into the existing system	\$ 25,000
3. Install new 10,000 gallon storage tank	\$ 9,000
4. Replace and rebury 4-inch existing pipeline	\$ 58,750
5. Install new package booster station	\$ 20,000
6. Install new 4-inch line to serve upper pressure zone	\$ 33,000
7. Purchase of land for new well site	\$ 12,450

Subtotal:	\$203,200
Engineering & Contingencies at 25%	\$ 50,800
Hydrogeology Consulting Services	\$ 17,000
	=====
TOTAL:	\$271,000

The Company stated that the proposed improvement Projects 5 and 6, totaling to \$53,000, were not as critical as the other projects and provided replacement projects where the \$53,000 may be better spent. The replacement projects included; 1) leak detection service, 2) up grading the type of new storage tank, 3) remediation of existing well site, 4) installation of automatic meter reader system, 5) new masonry building, and 6) additional contingency funds.

Staff's Review

Staff requested that the Company select from the project list above the projects it intends to fund with proceeds from this financing. In addition, Staff requested that the Company update any estimated costs and prioritize the projects to be funded. In the Company's response, the Company selected and revised its projects by providing a prioritized project listing and updated some of the estimated costs. Based on its review, Staff recommends the following revised and prioritized list of plant and cost estimates:

Project	Items	Costs
1	Leak Detection and Replacement:	
a.	Pressure checks on water line	\$ 3,000
b.	Rebury existing 4-inch pipeline:	
	Replacement of 2,350 feet of 4-inch lines	\$ 58,750
2	New Well and Site:	
a.	Purchase land for new well site, 60 feet x 100 feet	\$ 12,450
b.	Drill new production well:	
	Drilling/installation, 8-inch x 350 feet	\$ 57,849
	Completion/development/testing	\$ 15,600
c.	New well pump installation:	
	Grundfos 220 Watt solar package well pump system	\$ 13,000
	Pump installation	\$ 2,000
	Fencing	\$ 2,000
	Manifold piping, panel & site installation	\$ 7,500
	Contractor's fee	\$ 1,500
d.	Building at new well site	\$ 11,000
e.	Abandon/remediate existing well site	\$ 12,000
f.	Install new 10,000 gallon steel storage tank	\$ 23,500
	Subtotal:	\$ 220,149
	Hydrogeology consulting services (8%)	\$ 17,000
	Engineering consulting services (8%)	\$ 17,000
	Subtotal:	\$ 254,149
	Contingency (7%)	\$ 16,851
	TOTAL:	\$ 271,000

Staff agrees with the above prioritized project listing and believes Project 1 – Leak Detection and Replacement will be a major step toward addressing the water loss issue. Therefore, Staff concludes that the above revised capital improvement projects are appropriate and the cost estimate totaling \$271,000 is reasonable.

Compliances

According to an Arizona Department of Environmental Quality (“ADEQ”) Compliance Status Report, dated December 16, 2010, ADEQ has determined that the Company’s system, PWS #02-045, is currently delivering water that meets the water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

The Company is not located in any Arizona Department of Water Resources (“ADWR”) Active Management Area. According to ADWR, this Company is in compliance with ADWR requirements governing water providers and/or community water systems.

A check of the Utilities Division Compliance database showed that the Company had one delinquent ACC compliance item related to the water loss issue. The filing of this financing application is the Company’s plan to address this water loss issue.

Conclusion/Recommendation

The Company is in compliance with ADEQ, ADWR and ACC regulations.

Staff concludes that the capital improvement projects including Staff’s adjustments are appropriate and the cost estimate totaling \$271,000 is reasonable. No “used and useful” determination of the proposed project items were made and no particular treatment should be inferred for rate making or rate base purposes in the future.

Staff recommends that the Company file with Docket Control, as a compliance item in the docket, by August 1, 2012, a copy of the ADEQ Certificate for Approval of Construction for the installation of the new well.